Supreme Court, U.S.
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91-36

No._____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1990

GEORGE W. JURGENS AND MARGARET M. JURGENS,

Petitioners,

vs.

TIMOTHY McKASY d/b/a TONKA MARKETING AND CBK, LTD.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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QUESTION PRESENTED FOR REVIEW

Whether 15 U.S.C. § 1117(a) grants a court the discretion to award increased damages based on the willfulness or bad faith nature of a defendant's conduct, as held by the majority of the federal appellate courts, or whether such an award constitutes an impermissible statutory "penalty" as held by the Federal and Eighth Circuits?

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TIMOTHY McKASY d/b/a TONKA MARKETING AND CBK, LTD.,
Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

OPINIONS BELOW

The April 5, 1991 opinion of the Federal Circuit denying rehearing is not officially reported. A copy of this decision is reprinted in the Appendix at A-1. The Federal Circuit's full opinion of March 7, 1991 is unreported. A copy of this opinion is reprinted in the Appendix commencing at A-2. The June 28, 1989 opinion of the district court is unreported. A copy of this opinion is reprinted in the Appendix commencing at A-28.

JURISDICTION

The Federal Circuit's full opinion was handed down on March 7, 1991. The Federal Circuit's decision denying rehearing was dated April 5, 1991. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1). This petition is timely having been filed within ninety (90) days of denial of the petition for rehearing.

STATUTORY PROVISION INVOLVED

15 U.S.C. § 1117(a):

"(a) . . . When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, or a violation under section 1125(a) of this title, shall have been established in any civil action arising under this chapter, the plaintiff shall be entitled, subject to the provisions of sections 1111 and 1114 of this title, and subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. *In assessing damages the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according*

to the circumstances of the case. Such sum in either of the above circumstances shall constitute compensation and not a penalty. The court in exceptional cases may award reasonable attorney fees to the prevailing party".

(Emphasis supplied).

STATEMENT OF THE CASE

The Parties—Jelmer Shjeflo ("Shjeflo") invented a novel windsock goose decoy. Shjeflo was granted a United States patent for his idea on October 27, 1976 (the "Shjeflo Patent").

In 1979, petitioners George and Margaret Jurgens (the "Jurgenses") signed an exclusive license agreement for the patented decoy. Because they did not have much money to invest, Mr. Jurgens marketed the product during his lunch hours, calling on all the small stores in the area of Fergus Falls, Minnesota, a small community in Northern Minnesota. The Jurgenses also mailed brochures to as many companies and individuals as possible to promote their product. Sales of the Jurgenses' product grew slowly at first. In 1985, however, sales took off as the Jurgenses' product became nationally known. The product was featured on national television and was the focus of over fifty magazine articles.

CBK's Copying of the Jurgenses' Product—Not only did the Jurgenses' product gain national recognition, it also drew the attention of respondent CBK, Ltd. ("CBK"). CBK, a multi-million dollar corporation, is engaged in the business of manufacturing and selling novelty products. CBK's President purchased the Jurgenses' product at an industry trade show. He believed that CBK could effectively sell the Jurgenses' product on a large scale basis.

CBK's president attempted to explain the Jurgenses' product to one of CBK's employees so that she could design a similar product for CBK. When she did not understand his product description, he went to his office and returned with the Jurgenses' product. He gave the Jurgenses' product to the employee and instructed her to design a similar product for CBK to sell.

In "designing" a product for CBK, the CBK employee did not depart far from the Jurgenses' product. The employee first drew some one dimensional heads of ducks and geese. She then traced around the windsock body of the Jurgenses' decoy and made a few slight modifications to its shape. CBK sent the resulting drawings to Taiwan, as well as one of the Jurgenses' products, for copying. Not surprisingly, the product that returned from Taiwan was a copy of the Jurgenses' product.

CBK's Destruction of the Market—CBK entered the market with its knock-off product hoping to trade on the goodwill established by the Jurgenses. CBK was not worried about getting sued for copying the Jurgenses' product. As CBK's National Sales Manager told others, by the time the lawyers got involved, CBK planned to have made its money and be out of the market.

CBK advertised its product with only a single page of advertising in its catalogs for 1986, 1987, and 1988. CBK also copied information contained in a flyer for the Jurgenses' product and placed it on a CBK product display box—a display box which did not identify CBK as the manufacturer. Similarly, the most prominent words on the headers of CBK's product packaging were "Wind Decoy" as on the packaging for the Jurgenses' product. As a result of CBK's packaging, advertising and product appearance, buyers confused the Jurgenses and CBK products.

Upon CBK's entry into the market, sales of the Jurgenses' product dropped dramatically. The Jurgenses' losses were further compounded when CBK chose to rapidly exit the market. After the Shjeflo Patent was successfully reexamined by the United States Patent and Trademark Office, at CBK's request, CBK dumped all of its remaining inventory on the market at prices as low as 40¢ per decoy, below cost. CBK's product dumping flooded and destroyed the market the Jurgenses had built.

The Jury's Verdict—The Jurgenses commenced suit against CBK and Timothy McKasy d/b/a Tonka Marketing, Ltd. ("Tonka"), one of CBK's distributors, in June 1986 in the United States District Court for the District of Minnesota pursuant to 28 U.S.C. § 1338. The action was tried to a jury in May 1989. The jury found in favor of the Jurgenses on their claims for patent and trade dress infringement—awarding the Jurgenses $243,350 in damages for trade dress infringement under the Lanham Act ($1,350 against Tonka, $242,000 against CBK). The jury also found that both Tonka and CBK willfully violated the Lanham Act.

District Court Increases Lanham Act Damages Award—Following trial, the Jurgenses moved the District Court for an award of increased damages under 15 U.S.C. § 1117(a) to fully compensate the Jurgenses for their losses and to deter willful trade dress infringement. The District Court granted the Jurgenses' motion doubling the Lanham Act damages awarded against Tonka and trebling the Lanham Act damages against CBK. The District Court reasoned that this increased award was appropriate because:

> "CBK knowingly copied plaintiffs' product *and attempted to assert the goodwill plaintiffs had established in the decoy market.* The court believes the jury's attempted

> award of $800,000 in punitive damages shows that the jury reached the conclusion as well. CBK's obvious attempt to mimic the appearance of plaintiff's product warrants treble damages."

(Emphasis added) (A-31).[1]

The Jurgenses also moved the District Court for an award of attorney's fees under the Lanham Act, the patent laws and the MDTPA. The District Court denied the Jurgenses' motion for attorneys' fees in part because it believed that the award of increased damages under the Lanham Act adequately compensated the Jurgenses for their losses. (A-34-35). CBK and Tonka subsequently appealed the District Court's decision to the United States Court of Appeals for the Federal Circuit pursuant to 28 U.S.C. § 1295(a).

Federal Circuit Reverses Increased Damages Award—The Federal Circuit affirmed the District Court's findings of willful patent and trade dress infringement. The Federal Circuit reversed, however, the award of increased damages under the Lanham Act. Relying on *Metric & Multistandard Components Corp. v. Metric's, Inc.*, 635 F.2d 710 (8th Cir. 1980), the Federal Circuit held that the District Court's reliance on deterrence and the willful nature of the infringement as a basis for its increased damages award rendered the award an improper "penalty" under §35(a) of the Lanham Act.[2] (A-25-27).

---

[1] The jury awarded $800,000 in punitive damages pursuant to the Minnesota Deceptive Trade Practices Act ("MDTPA"). This award was later vacated by the District Court.

[2] Because the Federal Circuit does not have exclusive jurisdiction over claims arising under the Lanham Act, the Federal Circuit applied what it perceived to be the substantive law of the circuit where the action originated, here, the Eighth Circuit. (A-25-26).

REASONS FOR GRANTING THE WRIT

I. THE FEDERAL CIRCUIT'S REVERSAL OF THE DISTRICT COURT'S INCREASED DAMAGES AWARD DIRECTLY CONFLICTS WITH THE DECISIONS OF OTHER APPELLATE COURTS.

The Federal Circuit's reversal of the District Court's increased damages award directly conflicts with the decisions of other federal courts. With the exception of the Federal Circuit and the Eighth Circuit, the federal courts have uniformly held that increased damages are appropriate under 15 U.S.C. § 1117(a) where the infringement has been willful or in bad faith. Such awards do not constitute an impermissible "penalty" under the Lanham Act. *See, e.g., Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435-36 (7th Cir. 1989); *Polo Fashions, Inc. v. Craftex, Inc.*, 816 F.2d 145 (4th Cir. 1987); *Ramada Inns, Inc. v. Gadsden Motel Co.*, 804 F.2d 1562, 1568 (11th Cir. 1986); *Boston Professional Hockey Asso., Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d 71, 77 (5th Cir. 1979); *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103, 113 (2d Cir. 1988), *cert. denied*, 490 U.S. 1006 (1989); *Deering, Milliken & Co. v. Gilbert*, 269 F.2d 191 (2d Cir. 1959). The decisions of the Federal Circuit and the Eighth Circuit, therefore, represent a drastic departure from established federal law.

The unique position of the Federal and Eighth Circuits is also contrary to the clear language of the Lanham Act. On its face the Lanham Act contemplates an increased damages remedy based upon the culpability of a particular defendant not the adequacy of a particular award. Under the Lanham Act, a court has the express power to adjust a damages award,

upward or downward, to grant an appropriate measure of compensation to a plaintiff:

> "If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."

15 U.S.C. § 1117(a). Distinct from this power, the Lanham Act provides that a court may increase the amount of actual damages up to three times depending upon the circumstances of the case. *Id.* Reading the statute as a whole compels the conclusion that Congress intended that a court could treble the damages awarded in situations other than the presence of an inadequate damages award.

In short, the Federal Circuit's decision renders meaningless the Lanham Act's provision for increased damages. Under its interpretation of the Lanham Act, a court has the power to increase the damages awarded solely to ensure adequate compensation to a plaintiff; any reliance on the conduct of a defendant is improper. Thus, a court has the power to treble damages to compensate a plaintiff and the power to adjust a damages award to ensure adequate compensation to a plaintiff. Such an interpretation is nonsensical. The Federal Circuit has completely read out of the Lanham Act the remedy of increased damages.

Similarly, the interpretation adopted by the Federal Circuit flies in the face of the legislative history of the Lanham Act. In the 1905 Lanham Act, treble damages were mandatory. The 1946 Lanham Act eliminated the mandatory treble damage provision in favor of giving courts discretion to raise or lower awards according to the circumstances of the case,

"such sum to constitute compensation and not a penalty." The legislative history indicates that the *artificial* nature of the mandatory increase in the 1905 Act was considered to be a "penalty." Giving discretion, on the other hand, enabled the courts to avoid a harsh application of the law where equity dictated otherwise. *See* Registration of Trade-Mark, Joint Hearings on S 2679 before the House and Senate Comms. on Patents, 68th Cong., 2d Sess. 105, 47-48, and 114 fn. 40 (1925). *See also* Report of the New York Patent Law Association submitted to the Joint Committee at 104. Thus, the legislative history demonstrates that Congress simply viewed an *automatic* trebling or increasing of damages as an impermissible penalty. This result is avoided where a court exercises its discretion, under the particular circumstances of the case, to increase damages.

When the Lanham Act was amended in 1974 to allow for the recovery of attorneys' fees the legislative history further demonstrates the appropriateness of increased damages for willful infringement. In Senate Report No. 93-1400, 93d Cong., 2d Sess. (1974), reprinted in U.S. Code Cong. & Ad. News 7132, 7136, the Senate Judiciary Committee approvingly quoted a Department of Commerce statement noting that increased damages can be awarded for willful infringement:

> "Section 35 of the present Trademark Act provides for awarding treble damages in appropriate circumstances in order to encourage the enforcement of trademark rights. The availability of treble damages, however, cannot be regarded as a substitute for the recovery of attorney fees. In suits brought primarily to obtain an injunction, attorney fees may be more important than treble damages. Frequently, in a flagrant infringement where the infringement action is brought promptly, the

> measurable damages are nominal. Section 35, as proposed to be amended, makes clear that a court has discretion as to whether to award treble damages, attorney fees, or both, or neither."

Increased damages under the Lanham Act for willful infringement are also compatible with other federal statutes having increased damages provisions. For example, the 1909 Copyright Act contained a provision for discretionary damages within a certain range that "shall not be regarded as a penalty." This Court explained that the purpose of this clause was to give the trial court flexibility to compensate the plaintiff and to discourage willful and deliberate infringement. *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952), *motion denied*, 350 U.S. 810 (1955); *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935).

The position of the Federal Circuit and the Eighth Circuit not only eviscerates a significant federal statute, depriving plaintiffs of a key remedy for infringement, but it also conflicts with the decisions of other federal courts. With the exception of the Federal and Eighth Circuits, the federal appellate courts have uniformly recognized that the Lanham Act grants the district courts discretion to increase damages awards in appropriate circumstances. These circumstances include instances of willful infringement or bad faith. Contrary to the statute itself as well as its legislative history, the Federal and Eighth Circuits have held that increased damages awards cannot be based on the willfulness or bad faith nature of a defendant's conduct. Resolution of this conflict is necessary to ensure uniform application of an important federal statute.

II. THIS CASE PRESENTS AN IMPORTANT QUESTION OF FEDERAL LAW WHICH SHOULD BE SETTLED BY THIS COURT.

This Court's review of the question presented in this petition would have far reaching implications. The Lanham Act is one of the most powerful tools available to protect consumers from fraud and deception. One of the sharpest teeth in this statute is the increased damages remedy. This remedy strives to discourage willful infringement by ensuring that an infringer will have to pay a serious price for its actions. It is imperative that this federal statute be uniformly applied. If the position of the Federal and Eighth Circuits stands, these circuits will become safe havens for willful infringers. This Court should restore what was once a fundamental and well-established rule of federal law.

III. THE FEDERAL CIRCUIT'S DEPARTURE FROM THE ACCEPTED AND USUAL COURSE OF JUDICIAL PROCEEDINGS REQUIRES THE EXERCISE OF THIS COURT'S SUPERVISORY POWERS.

The Federal Circuit's reversal of the District Court's increased damages award is a radical departure from established federal law. This Court should exercise its supervisory powers to correct the Federal Circuit's decision. Here, the District Court properly exercised its discretion to increase the unfair competition damages award to compensate the Jurgenses for the destruction of their goodwill as well as to deter and punish flagrant infringement. Indeed, the District Court denied the Jurgenses' motion for attorneys' fees largely because it believed that the increased damages award adequately compensated the Jurgenses.

The record fully supports the increased award. First, CBK and Tonka traded upon the goodwill associated with the Jur-

genses' product line. CBK conducted none of its own advertising. Instead, its sales were due to the Jurgenses' extensive marketing efforts. Once CBK realized that its actions may result in serious liability, it destroyed the market by flooding the market with its inventory at prices *below cost*. The Jurgenses are entitled to compensation for the destruction of their market.[3]

The willful nature of the respondents' infringement also justified increased damages. CBK's National Sales Manager told one of the Jurgenses' distributors that he could care less about the Jurgenses' rights because by the time the lawyers got involved CBK would have made its money and be gone. CBK also blatantly copied the Jurgenses' product and packaging: the Jurgenses' product was shipped in its entirety to Taiwan and copied; CBK's "designer" traced the body of the Jurgenses' product in developing the CBK product; and CBK copied portions of the Jurgenses' sales literature to create deceptively similar packaging.

After hearing all the evidence, the District Court properly exercised its discretion and increased the Lanham Act damages award. This increase took into account both the destruction of the Jurgenses' goodwill and the willful nature of the infringement. Such an increase is consistent with the statute, the legislative history, and decisions preceding that of this case.

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[3] The Jurgenses presented uncontroverted evidence of compensatory damages in excess of $1,000,000. The testimony showed that for 1986 and 1987, the Jurgenses suffered lost incremental profits of over $500,000. In 1988 and 1989, when CBK was busy dumping its remaining inventory on the market at depressed prices, it had over $600,000 in gross sales. The jury, however, only awarded the Jurgenses $242,000 in compensatory damages. The District Court's increase of this award is consistent with providing the Jurgenses with full compensation and does not constitute a windfall.

CONCLUSION

For the foregoing reasons, petitioners George and Margaret Jurgens respectfully request this Court to grant its petition.

DATED: July 1, 1991

Respectfully Submitted,

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APPENDIX

A true copy in 1 sheet(s) of the record in my custody. CERTIFIED 6-25, 1991 Francis E. Dosal, Clerk
BY: VICTORIA MORALEZ, Deputy Clerk

ORDER

Before RICH, Circuit Judge, SMITH, Senior Circuit Judge, PLAGER, Circuit Judge.

A petition for rehearing having been filed in this case,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, denied.

The suggestion for rehearing in banc is under consideration.

The mandate will issue on April 12, 1991.

FOR THE COURT,
/s/ FRANCIS X. GINDHART
Clerk

Dated: April 5, 1991
cc: THOMAS TINKHAM
BRIAN B. O'NEILL
JURGENS V MCKASY, 89-1645
(DCT - 3-86-578)
FILED U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT APR. 5, 1991
FRANCIS X. GINDHART, CLERK

Note: Pursuant to Fed. Cir. R. 47.8, this order is not citable as precedent. It is a public record.

Filed 4-12-91 FRANCIS E. DOSAL, CLERK Judgment Entered ———— Deputy Clerk's Initials pb

Attest: 4-12-91
(name not ascertainable)

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT
89-1645 and 90-1105
GEORGE W. JURGENS and
MARGARET M. JURGENS,
Plaintiffs/Cross-Appellants,
v.
TIMOTHY MCKASY d/b/a TONKA MARKETING
and CBK, LTD.,
Defendants-Appellants.

Brian B. O'Neill, Faegre & Benson, of Minneapolis, Minnesota, argued for plaintiffs/cross-appellants. With him on the brief were *Alan M. Anderson* and *Felicia J. Boyd*.

Thomas Tinkham, Dorsey & Whitney, of Minneapolis, Minnesota, argued for defendants-appellants. With him on the brief were *Stuart R. Hemphill, Michael J. Wahoske* and *Richard C. Strasser*.

Appealed from: U.S. District Court for the
District of Minnesota

Judge Renner

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT
89-1645 and 90-1105
GEORGE W. JURGENS and
MARGARET M. JURGENS,
Plaintiffs/Cross-Appellants,
v.
TIMOTHY MCKASY d/b/a TONKA MARKETING
and CBK, LTD.,
Defendants-Appellants.

DECIDED: March 7, 1991

Before RICH, *Circuit Judge*, SMITH, *Senior Circuit Judge*, and PLAGER, *Circuit Judge*.

RICH, *Circuit Judge*.

These appeals are from a judgment of the United States District Court for the District of Minnesota in a jury case involving patent infringement and unfair compensation. The judgment awarded increased damages and injunctive relief to plaintiffs George and Margaret Jurgens for defendants' patent infringement, unfair competition under Lanham Act § 43(a), and violation of the Minnesota Deceptive Trade Practices Act. We affirm the judgment in No. 90-1105, except to the extent it awarded increased Lanham Act damages. We dismiss appeal No. 89-1645 for lack of appellate jurisdiction.

BACKGROUND

A. The Parties and Technology

While driving by an airport in the summer of 1975, Jelmer Shjeflo saw an airport windsock with a ball on top of the pole supporting the windsock. The arrangement reminded Shjeflo of a goose, and gave birth to his idea of a windsock hunting decoy. In 1976 Shjeflo developed a windsock decoy having a goose-head, stake, and windsock body bag.

Shjeflo applied for a utility patent on his conception on October 27, 1976. A single claim was presented for examination, which was allowed without rejection or amendment. The claim reads:

> 1. A decoy comprising a head portion having a neck portion therebeneath and made of relatively rigid material, a hoop member attached to the bottom of the neck portion and extending downward therefrom, a spike attached to the bottom of the hoop and projecting down-

ward therefrom, said spike being adapted to be inserted into the ground, said head and neck portions simulating the head of a water fowl, a flexible bag having a wind sock construction with an opening at the front end with the edges of the bag adjacent the opening fixed to the hoop to keep and maintain the opening in an open condition, the bag having flared out center portions, a tapered rearward portion, whereby when the decoy is positioned so that the opening in the bag is facing into the wind, the wind will inflate the bag so that the bag will give the appearance of the body of a water fowl with the flared out center portions giving the appearance of the folded wings of the decoy, and the tapered rearward portion giving the appearance of the tail of the water fowl.

See also Figures 1 and 4 of the Shjeflo patent, No. 4,062,141, issued December 13, 1977, entitled "DECOY," reproduced below.

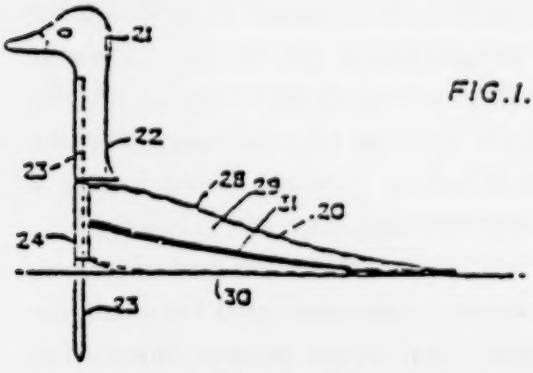

FIG. 1.

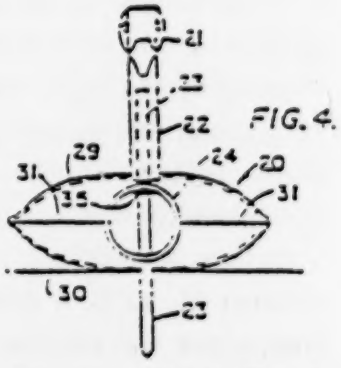

FIG. 4.

Shjeflo marketed his decoys under the name North Wind Decoys ("North Wind"), with little success in the first few years. In 1980, Shjeflo granted to the Jurgens a license to sell the decoys under the North Wind name. The Jurgens' sales grew slowly at first, but took off after they began selling the decoys as lawn ornaments. The Jurgens then purchased the Shjeflo patent and North Wind trademark for $187,500.

In 1985, CBK, Ltd. ("CBK") saw and obtained a North Wind decoy at a trade show. Later, CBK's product designer traced around the Jurgens' windsock body and make [sic] some modifications to its shape. The resulting drawings were sent to Taiwan for production. CBK began selling its decoys, called "Wind Decoys," in 1986.

B. Procedural History

On June 23, 1986, the Jurgens sued CBK and Timothy McKasy ("McKasy"), one of CBK's distributors, for selling windsock decoys. The Jurgens accused McKasy of infringing the Shjeflo patent,[1] and accused both McKasy and CBK of infringing its trade dress (the "look and feel" of its windsocks) under Lanham Act § 43(a), 15 U.S.C. § 1125(a) (1982),[2] and violating the Minnesota Deceptive Trade Practices Act ("MDTPA"), Minn. Stat. § 325D.44.

Shortly after the complaint was filed, CBK persuaded the Patent and Trademark Office ("PTO") to reexamine the Shjeflo patent claim in the light of prior art not considered in the original examination. Nonetheless, the patent claim was confirmed by the PTO without amendment.

Trial in the district court was by jury, with special verdicts. The jury returned special verdicts for the Jurgens on their claims for patent and trade dress infringement—finding $12,600 in patent damages (against McKasy) and $243,350 in § 43(a) damages ($1,350 against McKasy, $242,000 against CBK). For the MDTPA claim, the jury's verdicts were incon-

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[1] According to the appellants, CBK was not sued for patent infringement because the venue requirements of 28 U.S.C. § 1400(b) (1982) were not satisfied with respect to CBK.

[2] In this appeal we apply the language of § 43(a) that was operative before the 1988 amendment to that section. The 1988 amendments took effect on November 16, 1989, making them inapplicable to this case. *See* 15 U.S.C. § 1125 (1988).

sistent. As to CBK, the jury found *no* MDTPA violation in one verdict, yet inexplicably assessed $800,000 in punitive damages in another. As to McKasy, it found no violation and assessed no damages.

For obvious reasons, the trial court delayed entering judgment upon the verdicts until the parties had submitted post-trial motions. The Jurgens moved for treble damages, prejudgment interest, and attorney fees on the patent and Lanham Act claims; and for JNOV/new trial on the MDTPA "no liability" verdict. McKasy and CBK, on the other hand, moved for JNOV/new trial on the patent and Lanham Act claims, and CBK moved to strike the $800,000 punitive damage award under the MDTPA.

The court granted the Jurgens' motion for increased damages, doubling the patent and Lanham Act damages against McKasy and trebling the Lanham Act damages against CBK. The court also granted the Jurgens' motion for JNOV of liability against CBK on the MDTPA claim, thereby reconciling the inconsistency between the MDTPA verdicts. The court rejected the McKasy and CBK motion for JNOV on the patent and Lanham Act claims, because they had failed to move for a directed verdict at the close of all the evidence, and denied their alternative motion for a new trial. However, the court granted CBK's motion to strike the $800,000 punitive damage award as unwarranted by the evidence. The court deferred ruling on the Jurgens' request for prejudgment interest and attorney fees. Judgment was entered accordingly on July 5, 1989.

On August 3, 1989, McKasy and CBK appealed from the judgment (Appeal No. 89-1645), and on August 11, 1989, the Jurgens cross-appealed (Appeal No. 89-1658). Subsequently, on October 27, 1989, the district court ruled on the Jurgens'

outstanding motion for prejudgment interest and attorney fees. After the court's ruling, McKasy and CBK appealed a second time (Appeal No. 90-1105), fearful that their first appeal may have been ineffective because of the Jurgens' outstanding motion for prejudgment interest. The Jurgens, however, filed no new notice of cross-appeal.

On May 22, 1990, upon motion by McKasy and CBK, we dismissed the Jurgens' cross-appeal No. 89-1658 (concerning the court's striking of the $800,000 punitive damage award). We held that a notice of cross-appeal filed before the disposition of an outstanding motion for prejudgment interest was of "no effect." *Jurgens v. McKasy*, 905 F.2d 382, 385 (Fed. Cir. 1990).

This opinion addresses the McKasy and CBK appeals, Nos. 89-1645 and 90-1105.[3]

OPINION

I. Standard of Review

In a jury trial, there are two decisionmakers, the judge and the jury. In general, the judge decides issues of law and issues committed to his discretion, and the jury decides issues of fact that are material to the case and in genuine dispute. On proper appeal from a judgment in a jury case, we review the decisions made by the judge for prejudicial legal error (*e.g.*, jury instructions) or abuse of discretion (*e.g.*, increasing damages), the standard depending upon the particular issue. In contrast, we review the sufficiency of the evidence underlying a jury verdict on an issue of fact to determine whether

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[3] We now dismiss McKasy and CBK appeal No. 89-1645 for the same reason we previously dismissed the Jurgens' cross-appeal. *See Jurgens*, 905 F.2d at 383 (dismissed as untimely). McKasy and CBK voice no objection to this dismissal because their appeal No. 90-1105, to which we devote this opinion, was timely and raises almost identical issues.

the jury's decision was supported by substantial evidence. *See, e.g., Wahpeton Canvas Co. v. Frontier, Inc.*, 870 F.2d 1546, 1552, 10 USPQ2d 1201, 1207 (Fed. Cir. 1989).

Between these simple extremes of issues decided by the judge and issues decided by the jury are issues of law submitted to the jury upon disputed facts. When an issue of law has been submitted to the jury upon disputed facts—for example, a jury special verdict on patent claim obviousness where the underlying facts have been disputed—the standard of review has two parts. We first presume that the jury resolved the underlying factual disputes in favor of the verdict winner and leave those presumed findings undisturbed if they are supported by substantial evidence. *Perkin-Elmer Corp. v. Computervision Corp.*, 732 F.2d 888, 893, 221 USPQ 669, 674 (Fed. Cir.), *cert. denied*, 469 U.S. 857 (1984). Then we examine the legal conclusion *de novo* to see whether it is correct in light of the presumed jury fact findings. *See Newell Cos. v. Kenney Mfg. Co.*, 864 F.2d 757, 762, 9 USPQ2d 1417, 1421 (Fed. Cir. 1988), *cert. denied*, —— U.S. ——, 110 S.Ct. 62 (1989); *Structural Rubber Prods. Co. v. Park Rubber Co.*, 749 F.2d 707, 718-19, 223 USPQ 1264, 1273 (Fed. Cir. 1984).

In this case, CBK and McKasy failed to bring a timely motion for directed verdict. That failure dramatically changes the standard of review on this appeal—at least with respect to fact issues decided by the jury. Where a directed verdict motion is not made at the close of the evidence, the sufficiency of the evidence underlying presumed jury findings cannot be challenged through a JNOV motion or on appeal. *Smith v. Ferrel*, 852 F.2d 1074, 1075 (8th Cir. 1988); *Hubbard v. White*, 755 F.2d 692, 695-96 (8th Cir.), *cert. denied*, 474 U.S. 834 (1985). Accordingly, when CBK and McKasy failed to move for a directed verdict, they waived their right to chal-

lenge the presumed jury findings as unsupported by substantial evidence.

Nonetheless, CBK and McKasy may challenge the judgment below on the ground that the judge committed an error of law or abused his discretion. *Smith*, 852 F.2d 1077; *Hubbard*, 755 F.2d 694. Thus, despite their failure to move for a directed verdict, CBK and McKasy may challenge the judge's legal conclusion on obviousness, the judge's discretionary decision to award increased damages, the judge's jury instructions, and any other issue which was the province of the court rather than the jury and to which CBK and McKasy made a timely objection at trial.

II. Patent Issues

A. Validity

McKasy challenges the judgment that the patent claim would not have been obvious under 35 U.S.C. § 103 (1988). Nonobviousness is a conclusion of law based upon the factual underpinnings stated in *Graham v. John Deere Co.*, 383 U.S. 1 (1966). *Revlon, Inc. v. Carson Prods. Co.*, 803 F.2d 676, 678, 231 USPQ 472, 473 (Fed. Cir.), *cert. denied*, 479 U.S. 1018 (1986). When the *Graham* factual underpinnings have been genuinely disputed, as in this case, we presume that the jury resolved them in favor of the verdict winner. *Perkin-Elmer*, 732 F.2d at 893, 221 USPQ at 674. In the absence of a proper motion for directed verdict during the trial below, the sole question for review is whether the factual story told to the jury by the verdict winner (we must assume that the jury correctly believed it) supports the legal conclusion of nonobviousness.

McKasy's challenge to the judgment of nonobviousness is based upon two prior art references: the "Dacian windsock" reference appearing in C. Hart, *Kites: An Historical Survey* (1967), and U.S. Patent No. 3,470,645 (the Mattson patent).

Neither reference was expressly considered by a PTO examiner, either during examination or reexamination. Thus, McKasy seeks to take advantage of the doctrine that one *may* invalidate a patent more easily with prior art not considered by the examiner. *Kaufman Co. v. Lantech, Inc.*, 807 F.2d 970, 973, 1 USPQ2d 1202, 1204 (Fed. Cir. 1986).

McKasy's first argument, in a nutshell, is that the Dacian windsock is the "missing link" in the prior art—the reference which the examiner sought but could not find during reexamination. In support of this argument, McKasy quotes from the reexamination examiner's *Reasons For Allowance and/or Confirmation:*

> The prior art [present in this reexamination] can be broken down into three broad categories. The first are floating decoys . . . .
>
> The second category consists of land-type decoys . . . .
>
> The third category of prior art consists of windsock devices. . . .
>
> As for obviousness, there is no teaching, suggestion, or inference in any of the references or any knowledge generally available to one of ordinary skill in the art to combine the teachings of the references to achieve the claimed invention. *Specifically, there is no teaching to combine any of the . . . windsock arrangements with any of the other references of record* [*i.e., decoys*]. [Citation omitted. Emphasis added.]

The Dacian windsock, McKasy asserts, supplies the missing link between windsocks and decoys because it is a windsock that has the appearance of an animal. McKasy quotes from Hart:

> The Dacian windsock . . . consisted of a hollow dragon's head mounted on a pole, behind which the fabric tube

> was fixed. . . . When in use, it was held up into the wind, or above the head of a horseman, which allowed it to fill out with air and give the appearance of being alive.

C. Hart, *Kites: An Historical Survey* (1967) at 63.

In response, the Jurgens assert that the Dacian windsock is not prior art "analogous" to windsock decoys because the Dacian windsock was a horseman's battle implement, designed to terrorize enemies, not entice fowl. See generally *In re Wood*, 599 F.2d 1032, 1036, 202 USPQ 171, 174 (CCPA 1979), for what is "analogous" art. *See also Kimberly-Clark Corp. v. Johnson & Johnson*, 745 F.2d 1437, 1449-54, 223 USPQ 603, 610-14 (Fed. Cir. 1984).

We need not say which of these arguments is more persuasive. Whether the Dacian windsock is "analogous" art was a question of fact for the jury and we presume the jury decided the Dacian windsock was not analogous art. *See Panduit Corp. v. Dennison Mfg. Co.*, 810 F.2d 1561, 1568 n.9, 1 USPQ2d 1593, 1597 n.9 (Fed. Cir.) ("Whether something legally within the prior art is 'analogous' is a fact question"), *cert. denied*, 481 U.S. 1052 (1987). McKasy cannot challenge that presumed finding because he failed to move for a directed verdict. And if we presume that the Dacian windsock is not analogous art, it has no bearing on the obviousness of the patent claim.

McKasy's second argument is that the Mattson patent is the missing link between windsocks and decoys. (See Figures 1 and 2 below, which appear in the Mattson patent specification.) Mattson, all agree, is the most pertinent prior art. It discloses a bird decoy having a collapsible frame 11 and a weighted fabric cover 21. The frame is the bird's skeleton and the cover is the bird's feathered skin. There is an opening 23 in the lower front of the cover. Attached to the edges of this opening are weights 24 which hold the cover onto the frame by gravity.

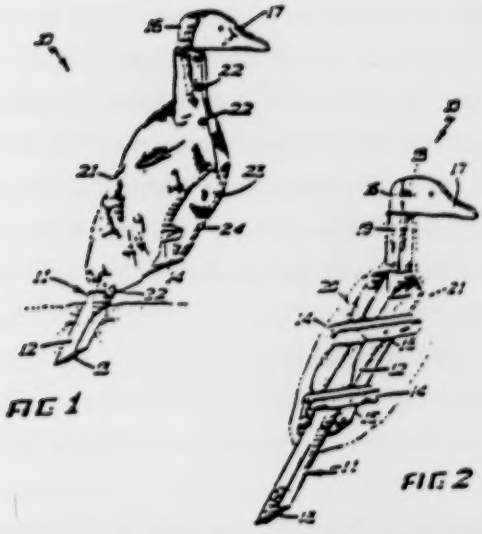

FIG 1

FIG 2

In support of his argument that the Mattson patent is a windsock-type decoy. McKasy relies on the bag-like structure of Mattson's cover 21, and language in the patent specification that "[a]ny wind or air movement through the longitudinal opening [23] will produce a riffling effect of the flexible cover so that body movement of the fowl will be simulated."

In response, the Jurgens contend that the Mattson patent does not show a *windsock*, so it cannot "link" windsocks and decoys. The Jurgens contend that Mattson is not a *windsock* decoy since its cover assumes the shape of a fowl by means of "transverse frame elements" 14, not by *wind*. A windsock, the Jurgens argue, is inflated by wind; it needs no internal frame. As to the language in the specification cited by McKasy, the Jurgens argue that the mere fact of "riffling" does not make Mattson's cover a windsock.

Once again, we need not say which of these arguments is more persuasive. What a reference teaches is a question of fact for the jury to decide, and we presume they resolved it in the Jurgens' favor. *Panduit*, 810 F.2d at 1579 n.42, 1

USPQ2d at 1606 n.42 (what a reference teaches is a question of fact). McKasy cannot challenge that presumed finding because he failed to move for a directed verdict. And if we assume, as we must in this appeal, that the Mattson patent does not disclose a windsock, but merely a stationary bird-decoy, then that decoy would be no different than the stationary decoys considered twice by the PTO in determining obviousness. On the record before us, it would not have rendered obvious the Shjeflo claim.

B. Infringement

Infringement may be found only if "every limitation set forth in a claim [is] found in an accused product or process exactly or by a substantial equivalent." *Johnston v. IVAC Corp.*, 885 F.2d 1574, 1577, 12 USPQ2d 1382, 1384 (Fed. Cir. 1989) (citations omitted). Where all claim limitations are present in the accused device exactly, the claims "read on" the accused device and literal infringement is made out. Even where there is no literal infringement, infringement *may* still be found under the doctrine of equivalents if the limitation or limitations not literally present are there by equivalents. *Becton Dickinson & Co. v. C.R. Bard, Inc.*, No. 90-1013, slip. op. at 5 (Fed. Cir. Dec. 13, 1990).

An analysis of infringement involves two steps. First, a claim is construed without regard to the accused product. *See Moeller v. Ionetics, Inc.*, 794 F.2d 653, 656-57, 229 USPQ 992, 994-95 (Fed. Cir. 1986). Second, the claim is compared with the accused product, to determine whether all of the limitations of the claim are present either exactly or by a substantial equivalent. *See id.*; *Lemelson v. United States*, 752 F.2d 1538, 1551, 224 USPQ 526, 533 (Fed. Cir. 1985).

Here, McKasy challenges the verdict of infringement, assuming that the jury found both literal infringement and infringement by equivalents.

1. Literal Infringement

McKasy's challenge to the presumed verdict of literal infringement focuses on the following claim limitations (*see* Figures 1 and 4, above):

> [A] hoop member attached to the bottom of the neck portion and extending downward therefrom, a spike attached to the bottom of the hoop and projecting downward therefrom . . .

McKasy asserts that the word "attached" in these limitations means directly connected or touching. The Jurgens counter that "the claim only requires that the hoop member support the neck portion, and the spike support the hoop member." The parties agree that resolution of this dispute—a question of law which we review *de novo, see Howes v. Medical Components, Inc.*, 814 F.2d 638, 643, 2 USPQ2d 1271, 1273-74 (Fed. Cir. 1987)—resolves the question of literal infringement. They are not in disagreement as to whether the claim literally covers the product, once properly construed. If the Jurgens' interpretation prevails there is literal infringement; if McKasy's interpretation prevails there is no literal infringement.[4]

We hold that the quoted claim limitations literally require a direct series connection between neck, hoop, and spike. That is the meaning which the reexamination examiner ascribed to the limitation, without dispute by Shjeflo's attorney, when he stated:

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[4] Jurgens and McKasy agree that the accused windsocks have no series connection from neck to hoop to spike. The hoop in an accused windsock (as in the patent) is sewn into the windsock body at the opening of the windsock. The hoop in an accused windsock, though, touches neither the decoy's neck nor the spike. The spike punctures the windsock fabric immediately behind the hoop, leaving the hoop supported by the fabric to which it is secured, in front of the spike. Thus, the spike is inserted directly into the neck (after puncturing the windsock fabric twice) without touching the hoop.

> There simply is no teaching of a head, neck, hoop and stake connected in series . . .

Reasons for Allowance and/or Confirmation at 4. Moreover, neither the specification nor the prosecution history indicates that Shjeflo intended another meaning.

As a matter of law, there is no literal infringement.

2. Infringement by Equivalents

McKasy challenges the judgment of infringement by equivalents on two grounds. First, he asserts that the jury could not have found from the evidence that the accused windsocks contain every limitation of the claim—either exactly *or* equivlently. *See Johnston*, 885 F.2d at 1577, 12 USPQ2d at 1384 (infringement may be found only if the accused product contains every limitation either exactly or by a substantial equivalent). Second, he asserts that even if the jury could have found the exact or substantial presence of every limitation in the accused windsocks, the judgment would be erroneous as a matter of law because the patent would then encompass the prior art described above. *See Wilson Sporting Goods Co. v. David Geoffrey & Assoc.*, 904 F.2d 677, 683, 14 USPQ2d 1942, 1947-48 (Fed. Cir.) (prior art may prevent infringement by equivalents even if every limitation of an asserted claim is exactly or substantially present in an accused product), *cert. denied*, —— U.S. ——, 111 S.Ct. 537 (1990).

McKasy's first argument submits to a simple answer given the procedural posture of this appeal: whether the McKasy windsocks contain structure that is "equivalent" to every claim limitation was a disputed question of fact at trial. *See Pennwalt Corp. v. Durand-Wayland, Inc.*, 833 F.2d 931, 936, 4 USPQ2d 1737, 1740-41 (Fed. Cir. 1987) (equivalency of claim limitations and accused structure is a question of fact), *cert. denied*, 485 U.S. 961 (1988). It was presumably resolved

by the jury against McKasy and he may not challenge that finding on this appeal.

McKasy's second argument for noninfringement presents a question of law, which may have factual underpinnings. *See Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 870, 228 USPQ 90, 96 (Fed. Cir. 1985); *Wilson*, 904 F.2d at 683-84, 14 USPQ 2d at 1948. In this situation, as for obviousness, we presume that the jury resolved the underlying factual disputes in favor of the Jurgens and (because McKasy failed to move for a directed verdict) inquire only whether the legal conclusion embodied in the judgment—that the patent did not encompass the prior art—is correct in light of the presumed jury findings.

We have recently noted that it may be helpful to "conceptualize" the prior art limitation on the doctrine of equivalents by envisioning a hypothetical patent claim—similar to the asserted claim but broad enough to literally cover the accused products—and testing whether that claim would have been patentable in view of the prior art. *Id.* at 684-85, 14 USPQ2d at 1948-49. Using that approach in this case, to cover McKasy's windsocks literally the hypothetical claim would be identical to the original claim, except that it would relax the limitation that requires a direct series connection between neck, hoop, and spike. The hypothetical claim would permit that connection to be made indirectly, through the windsock fabric. *See* note 4, *supra*.

McKasy strenuously argues that the Mattson patent (*see* Figure 1 above) shows precisely this indirect connection between neck, hoop, and spike. But as we have explained earlier, the jury presumably found that Mattson *does not disclose a windsock*, an underlying finding which McKasy cannot challenge here. If we assume that Mattson does not disclose a

windsock, then the hypothetical claim, viewed as a whole, would not have been obvious in view of Mattson for reasons we have stated earlier. As for the Dacian windsock, McKasy's other newfound reference, the jury presumably found that that reference was not analogous art.

As discussed above with respect to validity, the PTO examiner found, and we agree, that there was no linkage between "decoy" prior art (such as Mattson) and windsock prior art (such as the Dacian windsock). That reasoning holds true for patentability of the hypothetical claim. Thus, the prior art does not bar infringement by equivalents.

C. Increased Damages

If patent infringement is willful, as the jury found here, increased damages may be awarded at the discretion of the trial judge. 35 U.S.C. § 284 (1988); *Ryco, Inc. v. Ag-Bag Corp.*, 857 F.2d 1418, 1429, 8 USPQ2d 1323, 1332 (Fed. Cir. 1988). In deciding whether to increase damages, the court must consider all of the circumstances of the case. *See Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565, 1579, 230 USPQ 81, 90-91 (Fed. Cir. 1986), *cert. denied*, 479 U.S. 1034 (1987).

McKasy argues that the judge abused his discretion in doubling the patent damages, because McKasy had no knowledge of the patent when he began selling his windsocks and, upon learning of the Jurgens' threat of infringement, he removed the windsocks from his shelves. According to McKasy, he resumed sales only when he was assured by CBK (through CBK's patent attorney) that there was no infringement. In addition, he asserts he made a substantial challenge to the charge of patent infringement.

The Jurgens assert that McKasy's argument is unpersuasive because McKasy had a duty to obtain legal advice *before*,

not *after*, he began selling CBK's products, citing *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 219 USPQ 569 (Fed. Cir. 1983). We disagree. Although the court in *Underwater Devices* stated that infringers have a "duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity," *id.* at 1390, 219 USPQ at 576, the infringer in that case knew of the patent before it began infringing. In that context advice of counsel *before* selling the product may be appropriate, and at least is possible.[5] In contrast, here McKasy had no knowledge of the patent when he began selling windsocks.

The Jurgens' attack on the quality of the legal advice ultimately relied upon by McKasy is more persuasive. The "opinion of counsel" that McKasy wore as a shield after he was threatened with infringement was merely a letter of assurance from CBK, informing McKasy that CBK had obtained an opinion of counsel that the patent was invalid and not infringed. No copy of the opinion accompanied CBK's assurance letter, and McKasy did not investigate further. Moreover, the record shows that although McKasy did temporarily stop selling windsocks, he started selling again after receiving an indemnity agreement from CBK—still without advice of counsel. Finally, McKasy employed a "shotgun" approach to the defense of this patent suit, asserting and pursuing every conceivable defense, only to concede many of them during oral argument in the trial court.

III. Lanham Act Issues

A. Liability

Under Eighth Circuit law, a combination of design features—a "trade dress"—is entitled to protection under § 43 of

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[5] We have since held that failure to obtain advice of counsel does not mandate a finding of willful infringement or increased damages. *Kloster*, 793 F.2d at 1579, 230 USPQ at 90.

the Lanham Act if that combination is nonfunctional, has acquired secondary meaning, and if a product using those features is likely to cause confusion, mistake, or deception. *Truck Equip. Serv. Co. v. Fruehauf Corp.*, 536 F.2d 1210, 1217, 191 USPQ 79, 85 (8th Cir.), *cert. denied*, 429 U.S. 861 (1976).[6] Here, McKasy and CBK challenge the judgment of trade dress infringement on several grounds.

McKasy and CBK first argue that the court erred by refusing to instruct the jury that it could not find the Jurgens' asserted trade dress to be "nonfunctional" if doing so would hinder competition. We disagree. While that is a correct statement of Eighth Circuit law, *see Prufrock, Ltd. v. Lasater*, 781 F.2d 129, 133, 228 USPQ 435, 438 (8th Cir. 1986), and it would have been preferable for the court to include the instruction, we are not convinced that the omission was prejudicial. The instructions given by the court stated the basic factors to be considered by the jury in determining functionality. Omission of an *additional* instruction on whether competition would be hindered was not essential in view of the instructions which were given.

McKasy and CBK also assert prejudicial legal error in the judge's instruction that "You are permitted to decide whether there is a likelihood of confusion based solely upon inspection of the CBK and Jurgens wind-inflated decoys and their manner of use." McKasy contends the instruction was erroneous because it failed to list several *other* factors that should be considered under Eighth Circuit law. *See SquirtCo*

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[6] "When dealing with issues of unfair competition law, over which this court does not have exclusive appellate jurisdiction, we look to the law of the regional circuit where the district court sits," here the Eighth Circuit. *Cicena, Ltd. v. Columbia Telecommunications Group*, 900 F.2d 1546, 1548, 14 USPQ2d 1401, 1403 (Fed. Cir. 1990).

v. Seven-Up Co., 628 F.2d 1986, 1090-91, 207 USPQ 897, 900 (8th Cir. 1980) (listing the "SquirtCo factors"). While McKasy and CBK correctly state the law, they fail to recognize that jury instructions must be considered *as a whole* in determining whether the jury was properly instructed. *See, e.g., Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1518, 220 USPQ 929, 940 (Fed. Cir.), *cert. denied*, 469 U.S. 871 (1984). Here, the jury instructions as a whole correctly stated Eighth Circuit law because elsewhere the judge stated that "[l]ikelihood of confusion is also determined by evaluating the following [*SquirtCo*] factors. . . ." McKasy and CBK also challenge the instruction because it failed to tell the jury that likelihood of confusion must result from the use of *nonfunctional* features. We reject this argument on the same reasoning: elsewhere the jury was instructed multiple times that it must find the asserted trade dress to be nonfunctional before it could find infringement.

B. Increased Damages

Section 35(a) of the Lanham Act, 15 U.S.C. § 1117(a) (1988), which sets forth monetary remedies, states in pertinent part:

> When a . . . violation under section 43(a), shall have been established . . . the plaintiff shall be entitled, . . . subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action. The court shall assess such profits and damages or cause the same to be assessed under its direction. In assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed. In assessing damages the court may enter judgment, according to the circumstances of the case, for any

> sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case. *Such sum in either of the above circumstances shall constitute compensation and not a penalty.* The court in exceptional cases may award reasonable attorney fees to the prevailing party. [Emphasis ours.]

In *Metric & Multistandard Components Corp. v. Metric's, Inc.*, 635 F.2d 710, 209 USPQ 97 (8th Cir. 1980), the Eighth Circuit held that this section gives a district court broad discretion to adjust monetary relief to serve the interests of justice, including trebling the jury verdict, "provided it does not award such relief as a penalty." *Id.* at 715, 209 USPQ at 102. McKasy and CBK contend that in this case the district court abused its discretion in increasing the jury damage award because it did so, *not* to compensate for difficulty in measuring or providing damages, but to penalize them for opprobrious conduct. In response, the Jurgens contend that courts have allowed trebling of damages to punish willful infringement. In addition, the Jurgens contend that the court's award in this case was compensatory, not punitive.

We agree with the Jurgens that at least one court has allowed the trebling of damages to penalize willful infringers. *See Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 435-36 (7th Cir. 1989). But on issues of unfair competition, our precedent requires us to defer to the views of the regional circuit in which the district court sits. *Cicena*, 900 F.2d at 1548, 14 USPQ2d at 1403. Here, Eighth Circuit law controls and *Metric* makes clear that the district judge

may increase damages, "providing it does not award such relief as a penalty." 635 F.2d at 715, 209 USPQ at 102.

The Jurgens' argument that the judge increased damages with "compensation" in mind is disingenuous. The Jurgens' attorney urged the court to increase the award for one reason:

> The purpose of the trebling provisions is to punish the defendants and deter similar conduct. And this is clearly such a situation where trebling would be appropriate. It . . . recognizes the fact that the jury in this case clearly believed that the defendants . . . had engaged in conduct with willful indifference to the rights of the Jurgens. . . .

The court's reliance on this punitive purpose is equally clear. When it ruled on the Jurgens' motion for increased damages, the court remarked:

> As to the Lanham Act damages . . . the court holds that plaintiffs are entitled to an award of treble damages against defendant CBK. The jury found that CBK willfully violated the Lanham Act. There was sufficient evidence that CBK knowingly copied plaintiffs' product and attempted to assert the good will plaintiffs had established in the decoy market. The court believes the jury's attempted award of $800,000 in punitive damages shows that the jury reached the conclusion as well. CBK's obvious attempt to mimic the appearance of plaintiffs' product warrants treble damages.

Additionally, in denying the Jurgens' motion to reinstate the previously-struck $800,000 punitive damages award under the MDTPA, the court stated:

> [T]he court states for the record that it believes that its trebling of the Lanham Act damage award against CBK fully satisfies any punitive or deterrent purpose

that would be accomplished by a punitive damage award [under the MDTPA.]

In summary, it is clear that the district court increased the jury damage award "as a penalty" against McKasy and CBK. Under *Metric* this is an impermissible reason for increasing Lanham Act damages. Since the Jurgens advanced no other reason at trial why the district court should have increased damages, the district court abused its discretion in increasing Lanham Act damages.

IV. Other Arguments

We have considered McKasy's and CBK's numerous other arguments, including their argument that the judge abused its discretion in denying their motion for a new trial, but find them unpersuasive.

CONCLUSION

We *reverse* the judgment in Appeal No. 90-1105 insofar as it increased Lanham Act damages. In all other respects, we *affirm*. We *dismiss* Appeal No. 90-1645 for lack of appellate jurisdiction.

COSTS

No costs.

89-1645 DISMISSED
90-1105 AFFIRMED-IN-PART
REVERSED-IN-PART

TRANSCRIPT OF PROCEEDINGS

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

3-86-Civ 578

George W. Jurgens and
Margaret M. Jurgens,

Plaintiffs,

vs.

TONKA Marketing and
CBK, Ltd.,

Defendants.

MOTIONS

June 28, 1989
St. Paul, Minnesota

* * *

[Tr. 7] "wind decoy" because they are generic.

Finally, defendants object to plaintiffs' proposed injunction in that it contains references to plaintiffs' trade dress. Defendants argue that this case was tried on the unique, nonfunctional aspect of plaintiffs' product and not on the packaging. Defendants point out that a trade dress claim was not pleaded.

Plaintiffs also move for an award of treble damages under both the patent laws and the Lanham Act. Plaintiffs argue that the jury's finding of willful violations of both those acts by defendants and the totality of the circumstances surrounding the case entitle them to an award of treble damages against both McKasy and CBK.

Defendant McKasy argues that an award of treble damages on the patent claim is inappropriate, because the total volume of orders he placed for CBK wind socks was less than $9,000. McKasy argues that the $12,600 damage award fully compensates plaintiffs. Both defendants contend that the Lanham Act damages should not be trebled. Defendants argue that trebling is appropriate in cases where a registered trademark

has been willfully copied and not in cases where a product's shape or design was copied. Defendants argue that the Court should reduce the Lanham Act damage awards.

Next, plaintiffs argue they are entitled to JNOV on their Minnesota Deceptive Trade Practice claim. Plaintiffs * * *

* * *

[Tr. 9] attorneys' fees or interest issues today. It will decide those issues without oral argument after entry of judgment.

All right. We will hear from both sides. Both sides will have ten minutes. Who filed the first motion, defendant?

MR. HAYWARD: Yes, Your Honor.

THE COURT: Very well.

MR. HAYWARD: Raymond Hayward appearing for the defendants. The issue that I would like to address first, Your Honor, is this question of the JNOV motion on behalf of defendants. I believe Your Honor has indicated that that is a strict requirement and has given an indication that Your Honor will not reach defendants' JNOV motion because of a supposed non-compliance with Rule 50(b).

THE COURT: Did I misstate the record? I always forget to get this down. Does anyone have any disagreement with what the Court has stated as to the facts?

MR. HAYWARD: None, Your Honor.

MR. ANDERSON: The only point I would make is that it is not our position that the jury's finding of the Lanham Act violation is a predicate to the award of punitive damages. It's not as straightforward. We believe that if the jury had been correctly instructed on the Minnesota Deceptive Trade Practices Act that they would have found a willful violation of that, as shown by their finding of the willful violations of the Lanham Act.

* * *

[Tr. 23] of the low volume of defendants' sales of the infringing product, an award of double damages is appropriate.

As to the Lanham Act damages, 15 USC, sec. 1117, the Court holds that plaintiffs are entitled to an award of treble damages against defendant CBK. The jury found that CBK willfully violated the Lanham Act. There was sufficient evidence that CBK knowingly copied plaintiffs' product and attempted to assert the good will plaintiffs had established in the decoy market. The Court believes the jury's attempted award of $800,000 in punitive damages shows that the jury reached this conclusion as well. CBK's obvious attempt to mimic the appearance of plaintiffs' product warrants treble damages.

As to the defendant McKasy, the Court, in holding that plaintiffs are entitled to an award of double damages, finds that McKasy acted only as a sales representative and did not participate in copying plaintiffs' product. The fact that the jury attempted to award no punitive damages against McKasy shows the jury's finding that he was less culpable.

Next, the Court holds that plaintiffs are entitled to JNOV as a matter of law on the MDTP Act claim. The MDTP Act states in pertinent part:

A person engages in a deceptive trade practice, when, in the course of his business, vocation or occupation, he:

(1) passes off goods or services as those of another;

(2) causes likelihood of confusion or of * * *

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA
THIRD DIVISION

Civil No. 3-86-578

GEORGE W. JURGENS and
MARGARET M. JURGENS,

Plaintiffs,

vs.

TIMOTHY McKASY d/b/a
TONKA MARKETING and
CBK, LTD.,

Defendants.

ORDER

Before the Court is plaintiffs' motion for an award of prejudgment interest, and for attorneys' fees. Plaintiffs George and Margaret Jurgens ("Jurgens") seek an award of prejudgment interest on the patent damages pursuant to 35 U.S.C. § 284, and on the Lanham Act damages under federal case law. Plaintiffs also seek attorneys' fees pursuant to 35 U.S.C. § 285 and 15 U.S.C. § 1117.

FACTS

Plaintiffs commenced this action on June 25, 1986, against Timothy McKasy ("McKasy") for patent infringement, and against both McKasy and CBK, Ltd. ("CBK") for unfair competition. The case was tried to a jury, and on May 23, 1989, the jury returned its Special Verdict. The jury found that McKasy had willfully infringed the Jurgens' patent, and also that both McKasy and CBK had willfully violated the Lanham Act.

The jury awarded damages in the amount of $12,600 against McKasy for the patent infringement. The Jury also awarded $1,350 against McKasy and $242,000 against CBK for the Lanham Act violation. The Court doubled the $12,600 and $1,350 awards against McKasy, and trebled the $242,000 award against CBK. Plaintiffs' final judgment is therefore $753,900.

DISCUSSION

I. Prejudgment Interest.

Plaintiffs assert that they are entitled to an award of prejudgment interest on both the patent damages and the Lanham Act damages. The Court agrees. For the patent damages, 35 U.S.C. § 284 provides that the court may award prejudgment interest and costs to a prevailing party. The United States Supreme Court has ruled that prejudgment interest under Section 284 should "ordinarily" be awarded. *General Motors Corp. v. Devex Corp.*, 461 U.S. 648, 655 (1983). The Court is not aware of any circumstances that would remove this case from the rule announced in *General Motors*.

A court may also award prejudgment interest on Lanham Act damages. *Gorstein Enterprises v. Quality Care-USA*, 874 F.2d 431, 436 (7th Cir. 1989). In *Gorstein Enterprises*, the court held that prejudgment interest should be "presumptively available" to victims of federal law violations. *Id.* The court reasoned that such a rule is necessary to fully compensate prevailing parties, and to prevent losing parties from benefiting from delay. *Id.* The Court believes that the *Gorstein Enterprises* decision is well reasoned, and will award plaintiffs prejudgment interest on their Lanham Act damages.

Interest on all claims will be computed from June 25, 1986, the date plaintiffs commenced this action, through July 5, 1989, at a rate of 10%.

II. Attorneys' Fees.

Both the patent laws and the Lanham Act authorize the award of attorneys' fees to a prevailing party in "exceptional cases." 35 U.S.C. § 285; 15 U.S.C. § 1117. Plaintiffs argue that the jury's finding of willfulness as to both the patent and Lanham Act claims makes this an exceptional case warranting an award of attorneys' fees.

The Court believes that an award of attorneys' fees is not warranted in this case for two reasons. First, the Court does not believe that this is an exceptional case. As to the patent claim, the evidence suggests that defendant McKasy, a distributor of CBK's products, relied upon CBK's representations that its product did not infringe the Jurgen's patent. McKasy presented a credible patent expert at trial who testified that the Jurgen's patent was invalid, or if valid was not infringed.

As to the Lanham Act claim, plaintiff presented substantial evidence that CBK intentionally copied the basic appearance of the Jurgens product. However, the Court notes that the issue of whether or not the appearance of plaintiffs' product was entitled to protection under the Lanham Act was very close in this case.

Second, the Court believes that its award of double damages on the patent claim, and treble damages on the Lanham Act claim, plus the award of prejudgment interest, are sufficient to compensate plaintiff. These awards are punitive in nature, and are a windfall to plaintiffs. The Court believes that in light of plaintiffs' large overall award in this case, a further award of attorneys' fees is not necessary.

Plaintiffs have also suggested to the Court by way of letter that the Court award attorneys' fees pursuant to Minn. Stat. § 325D.45, Subd. 2. That section allows a court to award attorneys' fees where a party willfully engaged in a deceptive trade practice knowing it to be deceptive. In this case the Court granted plaintiffs' motion for judgment notwithstanding the verdict on their claim that defendants willfully violated the Minnesota Deceptive Trade Practices Act. However, the Court made no finding that defendants knew that their conduct was deceptive. Also, the Court's belief that plaintiffs' award is sufficiently large applies here as well. The Court will

not award attorneys' fees under Minn. Stat. § 325D.45, Subd. 2.

Finally, plaintiffs motion seeks an award for costs. Costs are taxed by the office of the Clerk of Court, and not awarded by the Court. *See* Fed. R. Civ. P. 54(d); 28 U.S.C. §§ 1920, 1923 and 1924.

Accordingly, IT IS HEREBY ORDERED that

1. Plaintiff's are awarded prejudgment interest against defendant Timothy Mckasy on the total sum of $13,950.00 in the total amount of $4,233.14.

2. That the plaintiffs are awarded prejudgment interest against defendant CBK and its two partners Robert Kirkland and Carl Kirkland, individually and Jointly and severally, on the total sum of $242,000.00 in the total amount of $75,262.95.

3. That the judgment entered on July 5, 1989, be amended to include $4,233.14 against defendant McKasy and $75,262.95 against defendant CBK and its partners, Robert and Carl Kirkland.

4. Plaintiffs' motion for an award of attorneys' fees pursuant to 35 U.S.C. § 285, 15 U.S.C. § 1117, and Minn. Stat. § 325D.45, Subd. 2 is denied.

DATED: October 27, 1989.

ROBERT G. RENNER
United States District Judge

(2)

No. 91-36

Supreme Court, U.S.
FILED
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OFFICE OF THE CLERK

IN THE

Supreme Court of the United States

October Term, 1991

GEORGE W. JURGENS AND
MARGARET M. JURGENS,

Petitioners,

vs.

TIMOTHY McKASY d/b/a TONKA MARKETING
AND CBK, LTD.,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTION PRESENTED

Whether the Court of Appeals was correct in concluding that it was an abuse of discretion to increase Lanham Act damages "as a penalty" against respondent, where that Act explicitly requires that any increase in damages may only be made if the increase "shall constitute compensation and not a penalty," 15 U.S.C. § 1117(a), and the record includes, *inter alia*, the district court's own statements that its increased award was "punitive in nature" and "a windfall to plaintiffs."

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ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF
APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit which is the subject of the petition is reported at 927 F.2d 1552. In addition, an earlier opinion of the Federal Circuit in this case, dismissing petitioners' cross-appeal for lack of appellate jurisdiction, is also reported, at 905 F.2d 382.

STATEMENT OF THE CASE

Pursuant to Supreme Court Rule 15.1, respondents draw the Court's attention to certain relevant factual errors and omissions in the petition:

Respondent CBK, Ltd., was at the time of trial a Tennessee partnership of Robert and Carl Kirkland that operated as an importer/distributor of products for the gift market. (It is now a sole proprietorship of Robert Kirkland.) It was not "a multi-million dollar corporation...engaged in the business of manufacturing and selling novelty products." Compare Pet. at 3.[1]

CBK advertises and distributes its products through a yearly catalog and a network of in-house and independent sales representatives, like respondent McKasy,[2] who carry CBK products in their show rooms and at trade shows. (C.A. App. at 802-03).[3] Compare Pet. at 4, 12.

Robert Kirkland, CBK's co-founder, first saw the petitioners' Northwind products in the summer of 1985 at a gift market trade show in Atlanta, Georgia where they were on display at an exhibit of Davol Marketing. (C.A. App. at 805-06). He picked up a Davol Marketing flyer on the product (C.A. App. at 2760-61) that had neither the Northwind name nor any patent indication on it. (C.A. App. at 806-07). Kirkland liked the idea of using the windsock decoy as a lawn ornament, but thought the

[1]Because CBK, Ltd. was a Tennessee partnership, not a corporation, and is now a sole proprietorship, the requirement in Supreme Court Rule 29.1 of a statement of parent and subsidiary corporations is not applicable.

[2]The increased Lanham Act damages which are the subject of the petition were awarded by the district court against respondent CBK only and not against respondent McKasy.

[3]"C.A. App." refers to the Appendix filed in the Court of Appeals.

decoy could be made more realistic. (C.A. App. at 808). He then directed Rita Clemons, a CBK employee, to develop more lifelike drawings for the heads and bodies for each of four different species of waterfowl (goose, duck, swan and seagull) to be used as the artistic basis for CBK's line of lawn ornament windsock products. (C.A. App. at 808). At this time, neither Kirkland nor anyone else at CBK was aware that any of the Northwind products were patented. (C.A. App. at 807-08, 1020).

Clemons researched the appearance of these four waterfowl. (C.A. App. at 996-98). Although she used the body of a Northwind product to trace an initial outline, she then modified her drawings under the express direction of Kirkland with the intention of creating a more lifelike replica of a fowl. (C.A. App. at 998-1002, 3366b). The markings and colorations of the body were based on her research of waterfowl and were very different from the markings and colorations on the Northwind product. (C.A. App. at 1370, 1380, 1755-62). Once Kirkland was satisfied that Clemons' drawings had attained a sufficient level of realism, he directed a manufacturer to develop a prototype based on those drawings. (C.A. App. at 1018-19, 1492-96, 1931-40, 1989).

CBK advertised its products in its 1986 catalog and received the first shipments of the products in January, 1986. (C.A. App. at 812, 2201-02). In 1987, CBK added three song bird models (robin, cardinal, bluebird) and an owl to its product line. (C.A. App. at 813-14, 2762-2805). Because it considered its artistic designs original, CBK copyrighted each of the eight models of its products. (C.A. App. at 813, 1895-1930).

Because each of CBK's products and the Northwind

products is designed to represent a real species of bird, each product has different markings and colorings. Petitioners' admit that none of CBK's products is identical to any of the Northwind products. (C.A. App. at 1370, 1380). Each of the witnesses that addressed the issue testified that the markings and colorations for both the head and body for each of the CBK models (referred to as ornamental markings) were noticeably different from the markings and colorations on the closest corresponding Northwind product. (C.A. App. at 546-47, 656-64, 1370, 1380). The only similarity that petitioners were able to identify between the Northwind products and the CBK products was the general idea of a windsock decoy comprised of a head and neck, a stake, a hoop and a windsock, all together resembling a bird. (C.A. App. at 655, 1399, 1406). Petitioners admitted that there was not a single non-functional feature on the CBK product that the public would identify solely with Northwind. (C.A. App. at 607, 658-64, 1402).

Petitioners state that CBK conducted none of its own advertising and that CBK advertised its product with only a single page of advertising. Neither statement is accurate. It is true that each year a page in each of the thousands of catalogs that were distributed by CBK was dedicated to windsocks. CBK's primary means of promoting its product, however, consisted of (1) its approximately one hundred independent sales representatives, (2) the representatives' showrooms in which the product was displayed, and (3) the national and local trade shows at which the product was displayed by CBK and its representatives. (C.A. App. at 801-03, 128, 2084).

Petitioners claim that CBK used information contained

in a Northwind brochure by placing it on a CBK product display box and that CBK's name did not appear on the box. In fact, CBK is identified as the manufacturer on the "header" (the label) of each packaged product, and the packaged products with the headers were placed in each box. (C.A. App. at 1499). In addition, it does not appear that petitioners ever had any display box, let alone a display box similar to CBK's. (C.A. App. at 1500-01).

Petitioners state that the most prominent words on the headers of CBK's packages were the words "wind decoy," as they are on the Northwind packaging. An examination of the headers (*see, e.g.*, C.A. App. at 1755) and the testimony (C.A. App. at 554) shows that in fact the CBK heading is "LAWN DECORATION WIND DECOY" and the words "lawn decoration" are in the same print and are as prominent as "wind decoy."

Petitioners state that upon CBK's entry into the market their product sales dropped dramatically. It is undisputed that CBK entered the market in January 1986. (C.A. App. at 721). Petitioners' sales in 1986 were more than $2 million, an *increase* of over $600,000 (44%) from 1985 sales. (C.A. App. at 3461).

The testimony was uncontradicted that in the gift market the life cycle of a product like windsock decoys is two to three years. (C.A. App. at 968). From 1986 to the beginning of 1989, petitioners had over $4,000,000 in sales, with their tax returns reflecting a net *profit* of over $1,000,000. (C.A. App. at 1830, 3922-23). During the same time period, CBK had sales of $1,700,000 with a *loss* of approximately $400,000 (C.A. App. at 839, 3378), and McKasy's customers ordered less than 7,500 units, earn-

ing him less than $2,700. (C.A. App. at 3382).[4]

With respect to petitioners' claim for trade dress infringement under the Lanham Act, the jury returned a verdict for petitioners and found $243,350 in damages ($1,350 against McKasy and $242,000 against CBK). Although the jury concluded that the trade dress infringement had been willful, in that CBK had intentionally copied the basic appearance of the petitioners' product, there was no finding of bad faith on the part of respondents. As the trial court later commented, "the issue of whether or not the appearance of plaintiffs' product was entitled to protection under the Lanham Act was very close in this case." Pet. App. at A-29.

REASONS FOR DENYING THE WRIT

In an effort to interest this Court in granting review, petitioners have incorrectly stated the relevant holding of the Federal Circuit in this case. That court did not hold, as petitioners suggest, that it is inappropriate to consider an infringer's willfulness or bad faith conduct in determining whether to increase damages under the Lanham Act, specifically 15 U.S.C. § 1117(a). Rather, the Federal Circuit

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[4]Petitioners also claim that there was "uncontroverted evidence" of compensatory damages in excess of $1 million. Pet. at 12 n.3. This claim is incorrect. Petitioners' "evidence" was simply an assumption that petitioners were entitled to their own incremental profits figure on every bird CBK sold. (C.A. App. at 1321-24). This assumption was "controverted" repeatedly. (C.A. App. at 1302-24). Furthermore, petitioners' own expert never testified that petitioners' lost profits were even close to $1 million. Rather, they were at most closer to $500,000 *if* the controverted assumptions were accepted. (C.A. App. at 3328).

More importantly, after the jury received the controverted evidence, petitioners asked the jury to determine the amount that would fully compensate them. The jury awarded a total of $243,350 for Lanham Act damages and $12,600 (against McKasy) for patent damages. Petitioners did not challenge the adequacy of the amount that the jury awarded. They never asked the trial court to determine that this amount was insufficient, nor did they appeal that award.

held that, based on the record in this case, it was clear that the district court increased the jury damage award "as a penalty" against respondent CBK, that this was an impermissible reason for increasing Lanham Act damages, and that therefore the district court had abused its discretion in increasing the Lanham Act award. *See* Pet. App. at A-23.

This holding of the Federal Circuit was entirely correct, and does not present an issue necessary for this Court to review. It is not only consistent with, but is mandated by, the clear language of the statute, which specifically says that any increase in damages may only be made if the increase "shall constitute compensation and not a penalty." 15 U.S.C. § 1117(a). Not surprisingly, no case which petitioners cite as "in conflict" with the instant decision holds to the contrary. Indeed, those circuits which have actually considered the specific question of Lanham Act damages awarded as a penalty have all agreed with the Federal Circuit here that the statute means what it says, that increased Lanham Act damages may not be awarded as a penalty. Moreover, the Federal Circuit decision is consistent with and dependent upon the record in this case, which reflects, as the district court admitted and the court of appeals confirmed, that the award of increased damages was "punitive in nature" and "a windfall to plaintiffs," Pet. App. at A-29, that petitioners invited this error by urging the district court to increase the award for "one reason...to punish defendants," Pet. App. at A-22, that "the Jurgens advanced no other reason at trial why the district court should have increased damages," Pet. App. at A-23, and that "[t]he Jurgens' argument that the judge increased damages with 'compensation' in mind is

disingenuous." Pet. App. at A-22.

1. The language of the Lanham Act on this point is simple and clear: while a district court has discretion to increase damages in certain circumstances, that discretion is subject to statutory limitations, one of which is that any such increase "shall constitute compensation and not a penalty." 15 U.S.C. § 1117(a).

Subject to the principles of equity, a successful Lanham Act plaintiff may recover three types of damages: "(1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) the costs of the action." *Id.* "In assessing damages, the court may enter judgment, according to the circumstances of the case, for any sum above the amount found as actual damages, not exceeding three times such amount. If the court shall find that the amount of the recovery based on profits is either inadequate or excessive, the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case." *Id.* But, "[s]uch sum in either of the above circumstances shall constitute compensation and not a penalty." *Id.* Thus, if the district court is dissatisfied with the amount "found" as actual damages based on such evidence as could be presented, or if it feels the amount of recovery based on profits is unjust, it may increase the award to make it fit what it perceives to be the circumstances of the case, as long as that increase is compensation, consistent with the three types of recovery which the statute allows, and is not a penalty.

The relevant legislative history is fully consistent with this straightforward language and the Federal Circuit's interpretation thereof in this case. Because this history

has been recently and thoroughly analyzed and set forth in detail by the Second Circuit in *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d 103, 108-112 (2d Cir. 1988), *cert. denied*, 490 U.S. 1006 (1989), it need not be reiterated in detail here. In summary, § 35 of the Lanham Act, currently 15 U.S.C. § 1117(a), incorporated § 16 from the 1905 Act, 33 Stat. 728 (remedy at law for registered trademark infringement), as well as § 19, 33 Stat. 729 (remedy in equity). While § 16 gave the district court discretion to increase an award of actual damages up to three times its amount, and § 19 allowed for recovery in equity based on an infringer's profits, neither section contained provisions for punitive damages. Unlike the patent law models for the 1905 Act, which allowed increased damages as a punitive concept, the 1905 discretionary enhancement provision was remedial rather than punitive in nature, "included to enable courts to redress fully plaintiffs whose actual damages were difficult to prove." 858 F.2d at 110.

Any doubt on this point was eliminated by the drafters of the Lanham Act itself. They added the explicit caveat that enhancement of a damage award or adjustment of profits awarded must "constitute compensation and not a penalty." They also provided that recovery was limited to three types of damages (infringer profits, damages suffered by the plaintiff, and costs of the action), and made all monetary recovery "subject to the principles of equity." As the Second Circuit noted, these additions and the legislative history surrounding them show that the provisions for discretionary increase of damages awarded were to recognize and allow adjustment for problems of proof facing plaintiffs in such cases, 858 F.2d at 111, not to allow windfalls or punishments. Moreover, in addition to

the rule that "absent express statutory authority, punitive damages are not ordinarily recoverable in equity," 858 F. 2d at 111, here the "express statutory authority" affirmatively states that damages are limited to three types, and that no damages may be awarded as a penalty.

2. The relevant caselaw is in full accord. While some courts have required that there be a showing of willfulness or bad faith before increased damages may be awarded, *see, e.g., Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431, 436 (7th Cir. 1989) (enhanced damages properly invoked when infringement is deliberate); *Boston Professional Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d 71, 77 (5th Cir. 1979); *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d 636, 641 (D.C. Cir. 1982) (per curiam) (award of defendant's profits requires showing of bad faith or willful infringement), none has held that damages under the Lanham Act may be increased as a penalty or as a windfall. Some cases thus appear to use bad faith as a trigger for damage adjustment, but none says the actual adjustment may be divorced from real damages. This includes the cases cited by the petitioners as being in "direct conflict" with the instant decision. *See* Pet. at 7. Some of these decisions do not even discuss the "compensation and not a penalty" provision of the Lanham Act: *Ramada Inns, Inc. v. Gadsden Motel Co.*, 804 F.2d 1562 (11th Cir. 1986), merely affirms without discussion a district court's exercise of its discretion in trebling the damages. *See* 804 F.2d at 1568. Similarly, *Gorenstein Enterprises, Inc. v. Quality Care-USA, Inc.*, 874 F.2d 431 (7th Cir. 1989), does not discuss the "not a penalty" provision; it notes that trebling may be invoked when infringement is deliberate, but does not state that it may be awarded as

a penalty, and does not indicate that the trebled award was even challenged on that ground in that case. *See id.* at 436.[5] *Polo Fashions, Inc., v. Craftex, Inc.*, 816 F.2d 145 (4th Cir. 1987), does not even deal with increased Lanham Act damages. *See* 816 F.2d at 149 ("We need not consider whether, under these circumstances, the plaintiff was entitled to an award of damages under the Lanham Act, for it clearly was entitled to such an award upon its common law claim of unfair competition and its claim under North Carolina's Unfair Trade Practices Act....The district court...trebled that amount under the North Carolina statute.").

Indeed, those courts which have actually addressed the "not a penalty" provision, including the rest of the cases cited by petitioners as being in conflict with the Federal Circuit's decision as well as other cases not cited by them, fully agree that Lanham Act damages may not be awarded as a penalty. *See Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1127 (5th Cir. 1991) ("An enhancement of damages may be based on a finding of willful infringement, but cannot be punitive.... [E]nhancement could, consistent with the 'principles of equity' promoted in section 35, provide proper redress to an otherwise undercompensated plaintiff where imprecise damages calculations fail to do justice, particularly where the imprecision results from defendant's conduct."); *Getty Petroleum Corp. v. Bartco Petroleum Corp.*, 858 F.2d at 113 ("In sum, we hold that § 35 of the Lanham Act does not authorize an additional award of punitive damages for

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[5]Although *Gorenstein* does not discuss the "not a penalty" provision, it does cite *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 746 (7th Cir. 1985). *See* 874 F.2d at 436. As noted *infra*, *Otis Clapp* clearly recognizes that enhanced Lanham Act damages may not be awarded as a penalty. *See* 754 F.2d at 744-45. There is thus no conflict between the Seventh Circuit and the instant decision on this point.

willful infringement of a registered trademark. So long as its purpose is to compensate a plaintiff for its actual injuries—even though the award is designed to deter wrongful conduct—the Lanham Act remains remedial."); *Otis Clapp & Son, Inc. v. Filmore Vitamin Co.*, 754 F.2d 738, 744-45 (7th Cir. 1985) ("§ 1117 forbids the district court from allowing recoveries that are so excessive as to amount to a penalty.... § 1117 explicitly allows the district court to exercise its discretion, limited only by the admonition that the award may not constitute a penalty.... Because the district court's award cannot be characterized as a penalty, we hold that the district court did not abuse its discretion ...."); *Metric & Multistandard Components Corp. v. Metric's, Inc.*, 635 F.2d 710, 715 (8th Cir. 1980) ("The language of section 35 is clear: the district court is given broad discretion to award the monetary relief necessary to serve the interests of justice, provided it does not award such relief as a penalty."),[6] *Boston Professional Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc.*, 597 F.2d at 77 ("We hold only that increased damages cannot be upheld on the basis of the findings made below.... We would be reluctant to approve increased damages intended solely as punishment for conduct unrelated to the trademark infringement or to the actual damages caused by it. On the other hand, we might agree that increased damages may be justified by defendant's withholding or misrepresenting available sales records, which would have the effect of making much more difficult, if not impossible, plaintiffs' proof of damages or profits."); *Foxtrap, Inc. v. Foxtrap, Inc.*, 671 F.2d at 642 n.11 ("[T]he court should strive to assure that the award it orders will deter the defendant, yet not

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[6]This is the Eighth Circuit case which the Federal Circuit followed here because it expressed the views of the regional circuit in which the district court sits on this Lanham Act issue, over which the Federal Circuit does not have exclusive appellate jurisdiction. *See* Pet. App. at A-21.

be a windfall to plaintiff nor amount to punitive damages."). *See also Bandag, Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903, 917-918 (Fed. Cir. 1984) ("Section 1117 confers a great deal of discretion on a district court in fashioning a remedy for trademark infringement.... Nevertheless, any award ...'shall constitute compensation and not a penalty,' and all awards are expressly subjected to the 'principles of equity.' ... Defendant may not retain the fruits, if any, of unauthorized trademark use or continue that use; plaintiff is not, on the other hand, entitled to a windfall."); *Alpo Petfoods, Inc. v. Ralston Purina Co.*, 913 F.2d 958, 970 (D.C. Cir. 1990) ("Given [statutory restriction against penalty], if the district court decides to enhance damages under section 35(a), it should explain why the enhanced award is compensatory and not punitive.").[7]

There is no conflict among the circuits concerning interpretation of the "not a penalty" provision of the Lanham Act, let alone a square conflict requiring the exercise of this Court's review power.

3. Despite the Federal Circuit's reference to their argument as "disingenuous," Pet. App. at A-22, petitioners still urge upon this Court the argument that the increased damages award was actually made by the district court

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[7]The same is true of this Court's decisions concerning the 1909 Copyright Act, which petitioners also invoke. Although that Act contains somewhat different language concerning damage awards and is therefore not directly analogous, *see* 17 U.S.C. § 101(b), neither *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952), nor *Douglas v. Cunningham*, 294 U.S. 207 (1935), approves the use of a Copyright Act award "as a penalty." Indeed, the Court noted that while the district court is afforded discretion under that Act "to determine whether it is more just to allow a recovery based on calculation of actual damages and profits, as found from evidence, or one based on a necessarily somewhat arbitrary estimate," such an estimate may only be made "within the limits permitted by the Act." 344 U. S. at 231-232. "'Within these limitations the court's discretion and sense of justice are controlling, but it has no discretion when proceeding under this provision to go outside of them.'" *Id.* at 232 (quoting *L. A. Westermann Co. v. Dispatch Printing Co.*, 249 U.S. 100, 106-107).

with compensation in mind. The opposite is true, which is demonstrable from the district court's own words. In addition to the district court's repeated references to the increased award serving as a punishment, which the Federal Circuit quoted in its opinion, Pet. App. at A-22-23, the district court also stated explicitly that the increased Lanham Act award was "punitive in nature," and "a windfall to plaintiffs." Pet. App. at A-29. The district court thus left no doubt as to whether the award of increased damages was to compensate petitioners; rather, it was a "windfall" to them. And the award was clearly being used as a penalty against respondents; it was "punitive in nature." *Id.*

As the court of appeals also observed, this error by the district court was invited by petitioners themselves. They expressly told the district court that "the purpose of the trebling provisions is to punish the defendants ...." Pet. App. at A-22. As the court of appeals also found, after a careful review of the record, "the Jurgens advanced no other reason at trial why the district court should have increased damages." Pet. App. at A-23. They did not complain to the trial court that the jury's damage award was inadequate as compensation, and they did not appeal the amount of that award.[8]

The record in this case fully supports the court of

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[8]Petitioners state that "the District Court denied the Jurgenses' motion for attorneys' fees largely because it believed that the increased damages award adequately compensated the Jurgenses." Pet. at 11. This statement is inaccurate. The *primary* reason cited by the district court for not awarding attorneys' fees was that the case did not meet the Lanham Act requirement, found in 15 U.S.C. § 1117(a), of being "an exceptional case." "First, the Court does not believe that this is an exceptional case." Pet. App. at A-29. (The court noted in this regard that, despite evidence of copying the basic appearance of petitioners' product, "the issue of whether or not the appearance of plaintiffs' product was entitled to protection under the Lanham Act was very close in this case." *Id.*) Petitioners did not appeal the district court's denial of their motion for attorneys' fees.

appeals' decision with regard to the impropriety of the increased Lanham Act damages award. It does not merit further review by this Court.

CONCLUSION

The petition for a writ of certiorari should be denied.

Respectfully submitted,

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